(Prepared, Not Delivered)

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Capital Markets, Insurance, And Government-Sponsored Enterprises
"Corporate Accounting Practices: Is There a Credibility GAAP?"
May 14, 2002

Good morning. I want to thank Chairman Baker, for holding this second day of a set of important hearings. As I said on the first day of hearings two weeks ago, our responsibilities to build confidence in the capital markets require us to review the accounting principles and corporate practices that American companies use every day to report on their operations.

The average American is learning more about the Financial Accounting Standards Board, or FASB, and its role in the changes in their personal investment and retirement accounts. FASB's accounting principles are the bedrock of the financial reports that we rely upon as investors. The hard-working folks in Findlay, Ohio, don't have to check the FASB Web site for its latest pronouncements, but they depend on FASB to advise company management and auditors how to report billions of deals and daily transactions in the marketplace.

Federal securities law gave the authority for overseeing the process for setting those principles solely to the Securities and Exchange Commission. Practically from its beginning, the SEC wisely worked through private-sector bodies to set those standards. It would be sheer lunacy to imagine that the federal government could dictate accounting principles. Even after the recent spate of unpleasant news, the result of the SEC's collaboration with the private sector is the best financial disclosure and reporting system in the world, bar none.

But the folks in Findlay, indeed all of our "shareholders," also know that you can't stand still in America. Whole industries and some of our biggest companies didn't exist 20 years ago, and some that did then are gone now. Investments and structures that didn't exist then are now accepted as standard. The process for setting accounting principles has to adjust. FASB has to respond rapidly with the appropriate guidance, and the SEC has to work aggressively to ensure FASB's rapid approval of any new principle and adoption by the industry.

I have here an accounting textbook that was used in accounting courses at my alma mater, Miami University of Ohio, during the 1960s and '70s. Very early in the book, it cites some of the most basic guidance for accountants for the ideal that useful accounting information includes qualities such as relevance, understandability, timeliness, and comparability. I wonder whether the accounting information in financial statements possesses those qualities. For instance, AOL Time Warner reported a massive write-down in its assets, while Intel reported a huge increase in operating income, solely because of changes in accounting principles for reporting the value of goodwill. Those headlines produced confusion, misunderstanding, and doubts, and the companies have nothing to do with it; it was all based on the accounting.

And I'm beginning to wonder if the "cash flow game," which this Committee explored in two separate Subcommittee hearings on March 21 and May 1, is a real gamble for investors. In one quarter last year, Global Crossing reported cash flow that was 50 percent higher than its audited revenues. The other telecom companies have their own definitions of cash flow, and they all differ, and none of the claims by any company are audited or otherwise verified. Dynegy, which backed away from buying Enron as it collapsed, announced last month that it had its own accounting problems with its cash flow statement. It had to reduce its cash flow for 2001 by $300 million, or 37 percent, because it wasn't reported accurately.

Mr. Chairman, I know you agree that we need to do better if we are to prevent the volatility we've seen in the markets over corporate accounting. I hope we can use our bully pulpit here to help jump-start the process.

Beyond the accounting information, all of the value in a company should be reported with all of the same qualities that make accounting information useful. Several of our witnesses will discuss what they see as a revolution in corporate reporting. We look forward to hearing these ideas for innovative and dynamic mechanisms that will benefit investors.

That concludes my comments, and I will now yield back to the Subcommittee Chairman, Mr. Baker, for what I anticipate will be an outstanding hearing.

###